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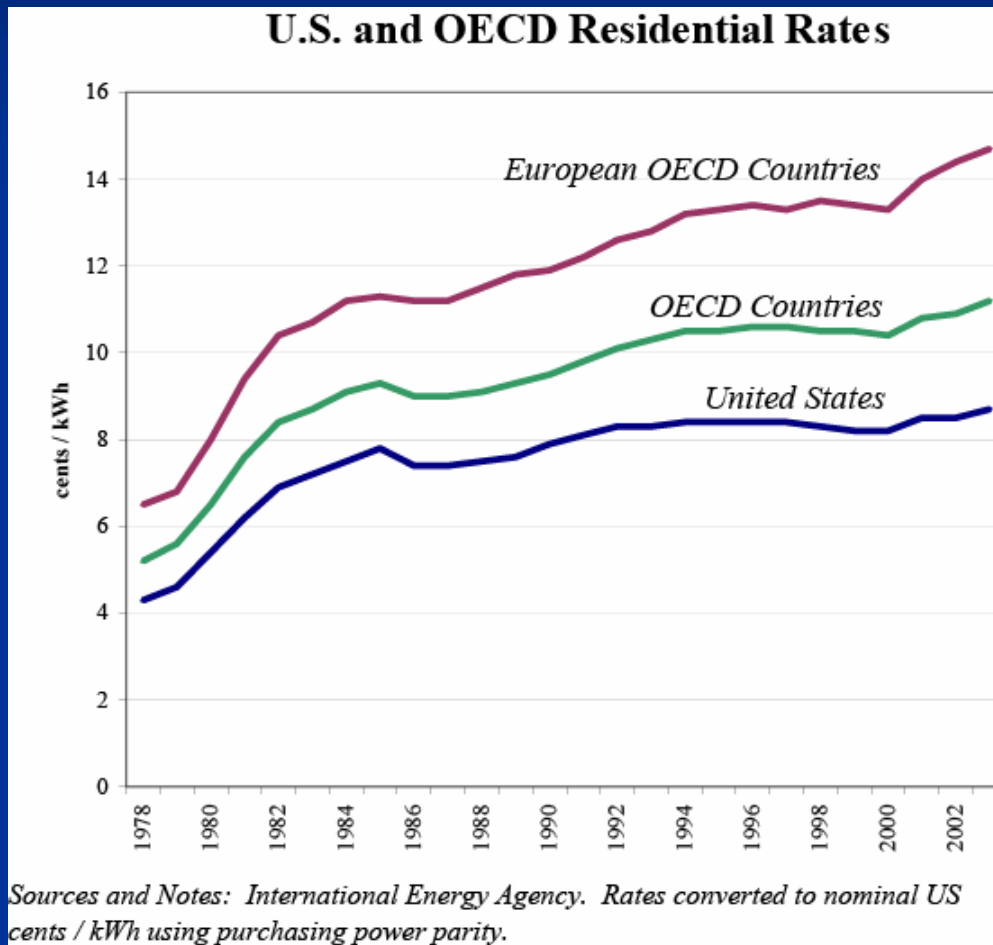
Rising Electricity Prices: A National Perspective

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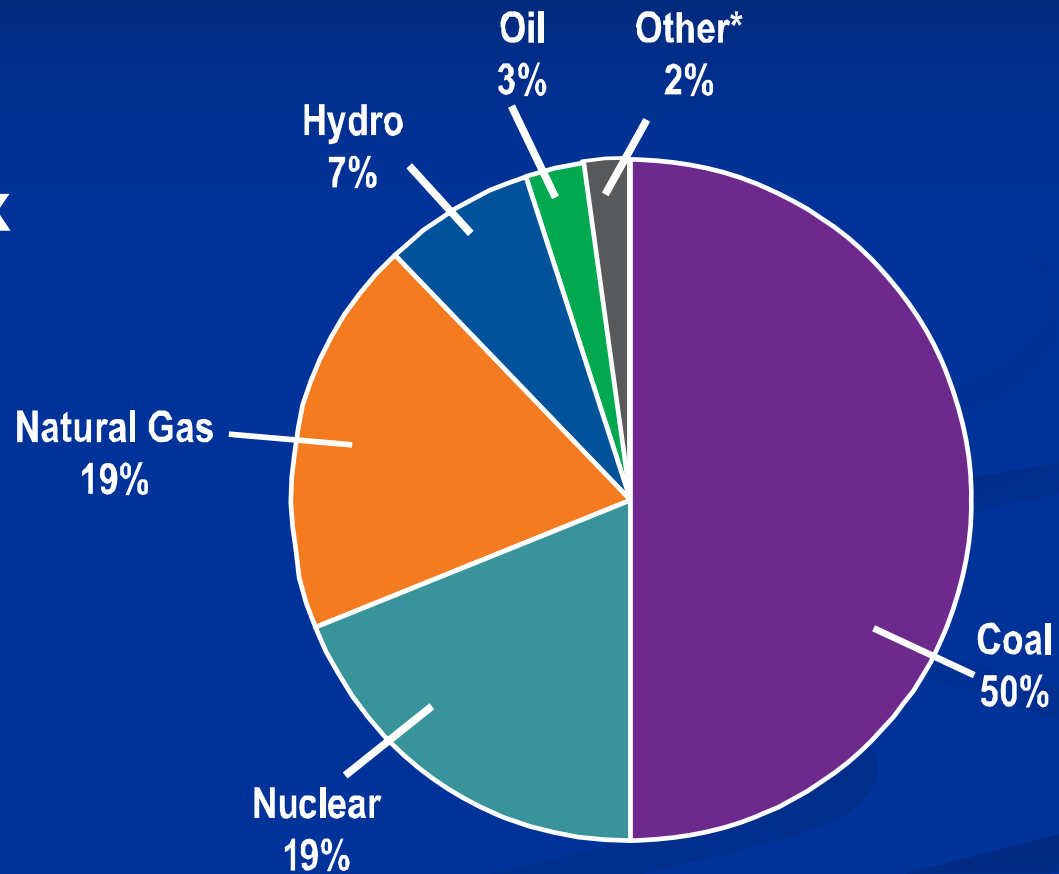
Electricity Rates: U.S. vs. Other Developed Countries



- U.S. rates well below European and OECD average
- Trends over time very similar, reflecting common fundamentals in global energy markets

Electric Utilities Use A Diverse Fuel Mix to Generate Electricity

National Fuel Mix



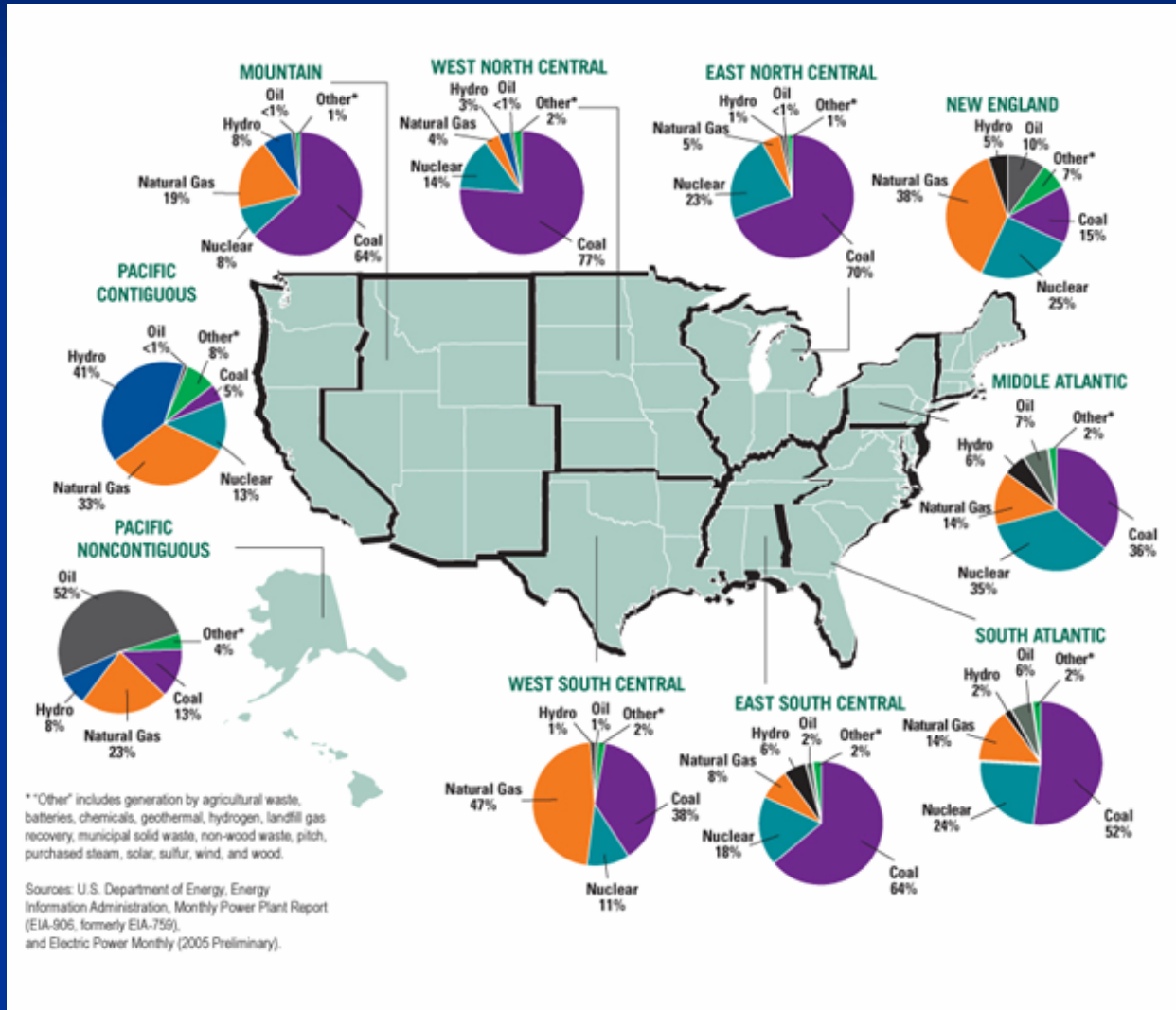
* "Other" includes generation by agricultural waste, batteries, chemicals, geothermal, hydrogen, landfill gas recovery, municipal solid waste, non-wood waste, pitch, purchased steam, solar, sulfur, wind, and wood.

Note: Numbers exceed 100% due to rounding

Source: U.S. Department of Energy, Energy Information Administration (EIA), 2005 preliminary data



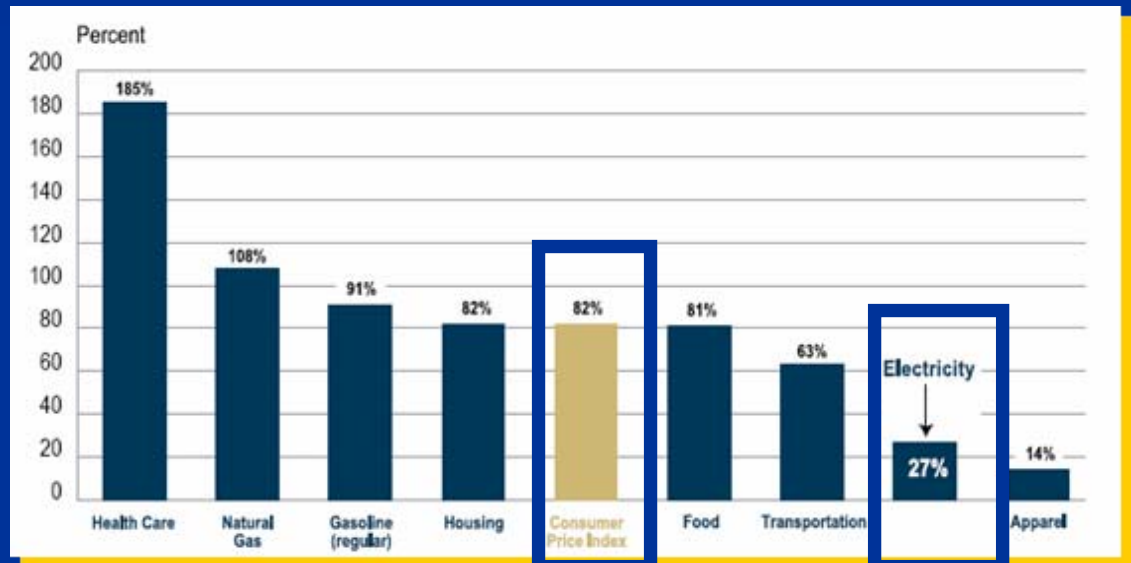
There Are Regional Variations in the Fuel Mixes Used to Generate Electricity



Electricity Price Trends

- The national average price for electricity today is less than what it was in 1980, adjusted for inflation
- Even with recent price increases, the growth rate for electricity prices remains comparable to, and even lower than, other important consumer goods

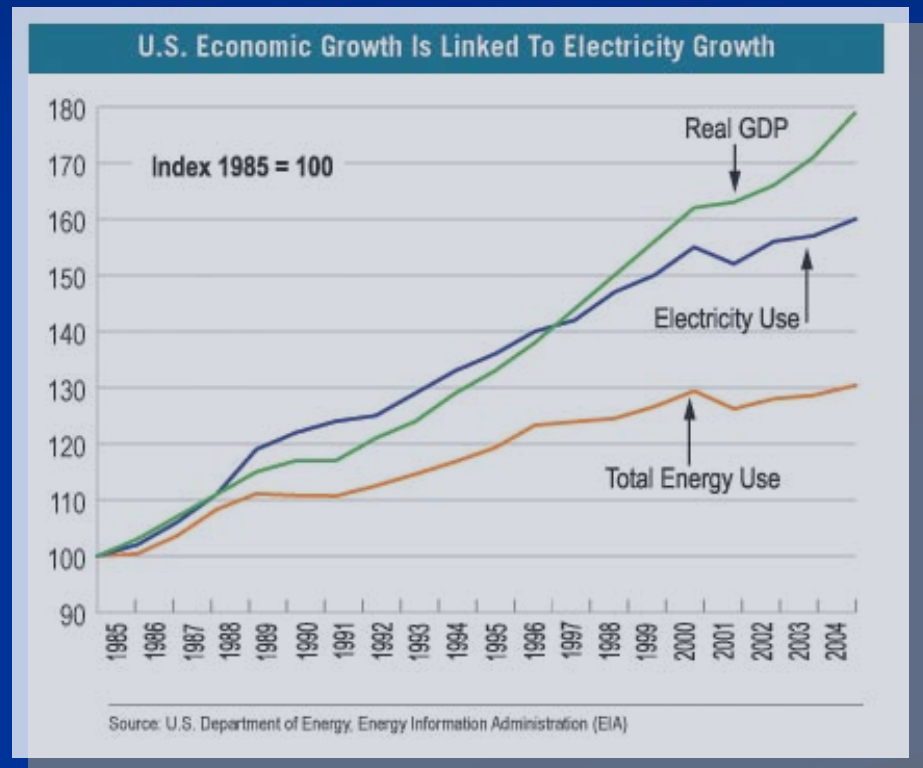
Increase in cost of selected consumer goods
1985 – 2005 (nominal dollars)



Sources: U.S. Department of Labor, Bureau of Labor Statistics, and U.S. Department of Energy, Energy Information Administration (EIA)

Electricity Is the Lifeblood of the U.S. Economy

- Electricity intensity in the U.S. economy is significantly related to the general level of economic activity
- Starting in the late 1990s, economic output grew faster than electricity use and much more rapidly than overall energy consumption

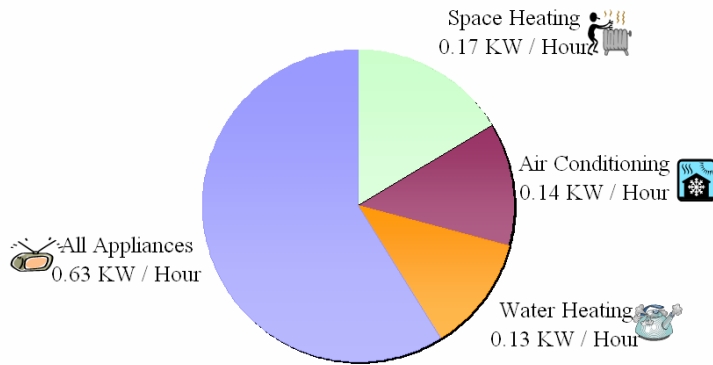


1985 represents the base year. Graph depicts increases or decreases from the base year.

Electricity Use in the Typical U.S. Home

PAST

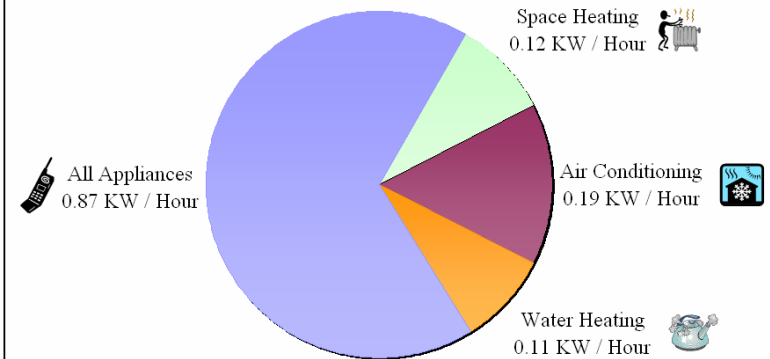
1978



Average Total Use: 1.07 KW / Hour / Household

PRESENT

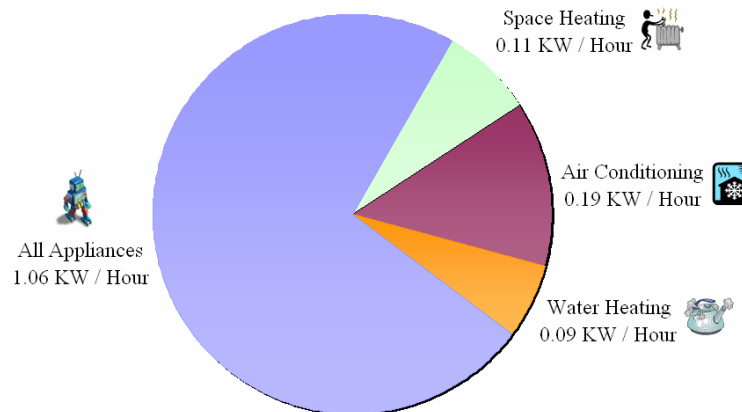
2003



Average Total Use: 1.30 KW / Hour / Household

FUTURE

2030



Average Total Use: 1.45 KW / Hour / Household

Role of Federal Government in Restructuring Electricity Markets

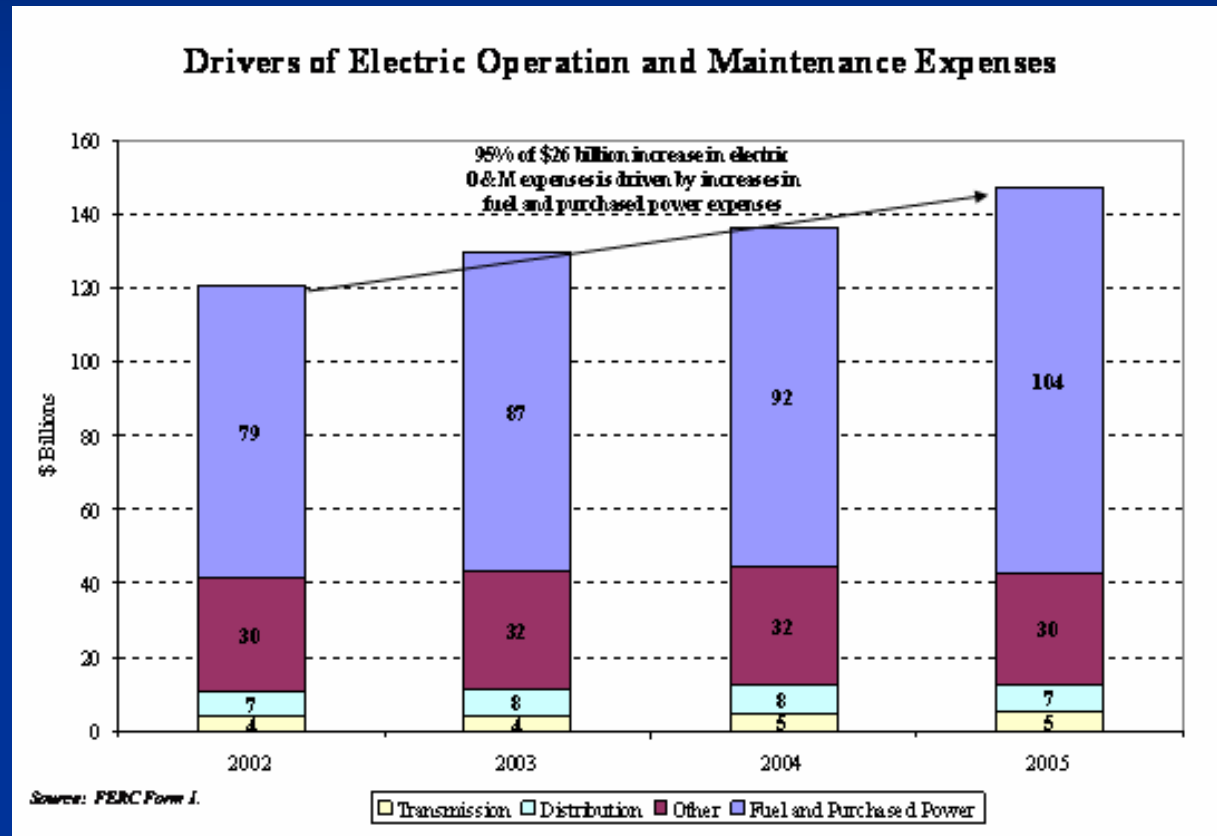
- Public Utility Regulatory Policies Act of 1978 (PURPA)
- Energy Policy Act of 1992
- Federal Energy Regulatory Commission Order 888 (open access order) – 1996
- Energy Policy Act of 2005

Result of Federal Role

- As the 1990s progressed, sales of electricity at market-based rates became common in wholesale power markets

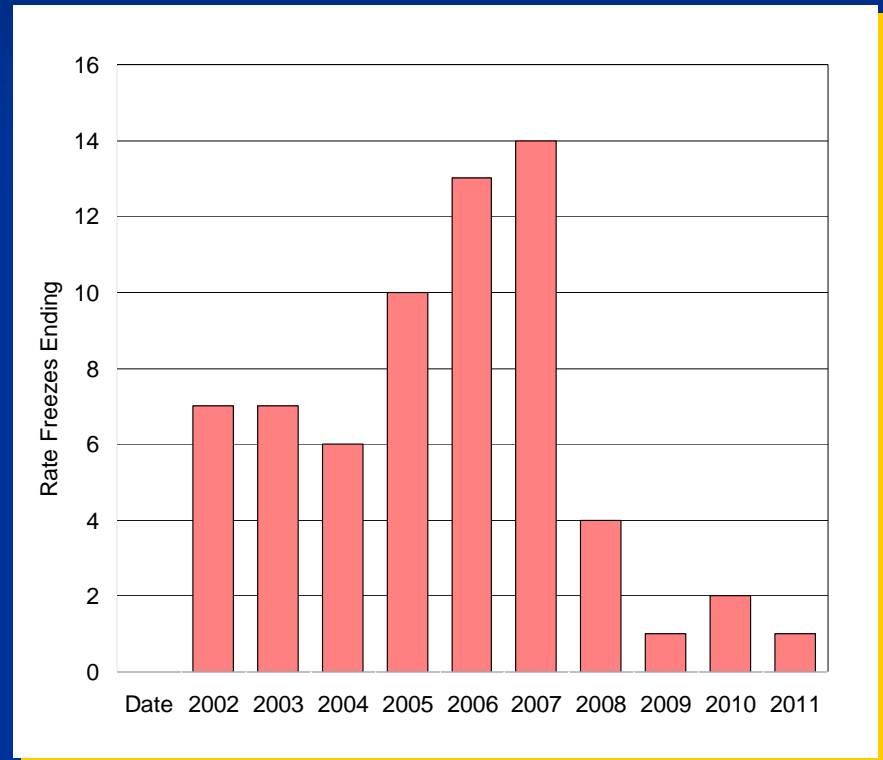
Electric Operation and Maintenance Expenses

- On an industry-wide basis, fuel and purchase power costs account for roughly 95 percent of the 33 percent increase in operation and maintenance (O&M) expenses experienced by utilities



Expiring Price Caps

- Significant rate increases prior to initiation of restructuring efforts
- To make competition politically tenable, policymakers decreed rates would be frozen or reduced for a period ranging from 2-10 years
- **Actual** costs were increasing!



Regulated vs. Restructured States

- Regulated States: Fuel expenses for utility-owned generation are the core component of O&M increase
- Restructured States: Utilities face higher purchased power expenses

Regulated vs. Restructured States

■ Regulated States:

- From January 2004 until present, there are 111 rate situations—51 of them (45.9 percent) are fuel increases
- 12 states, beginning late 2005, have double-digit rate increases pending

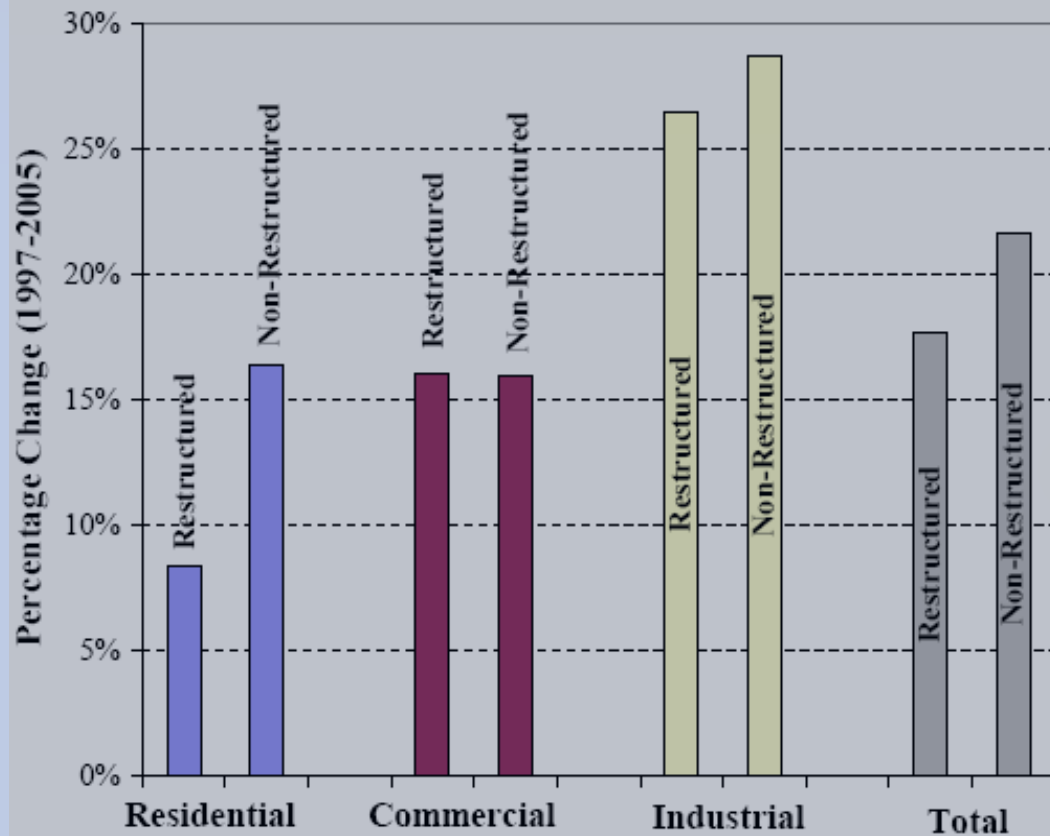
■ Restructured States:

- From January 2004 until present, there are 125 rate situations—63 of them (50.4 percent) are fuel increases

What's Going On?

- Why are there similar increases in regulated and restructured states? All but 3 states have implemented some form of purchased power adjustment clauses

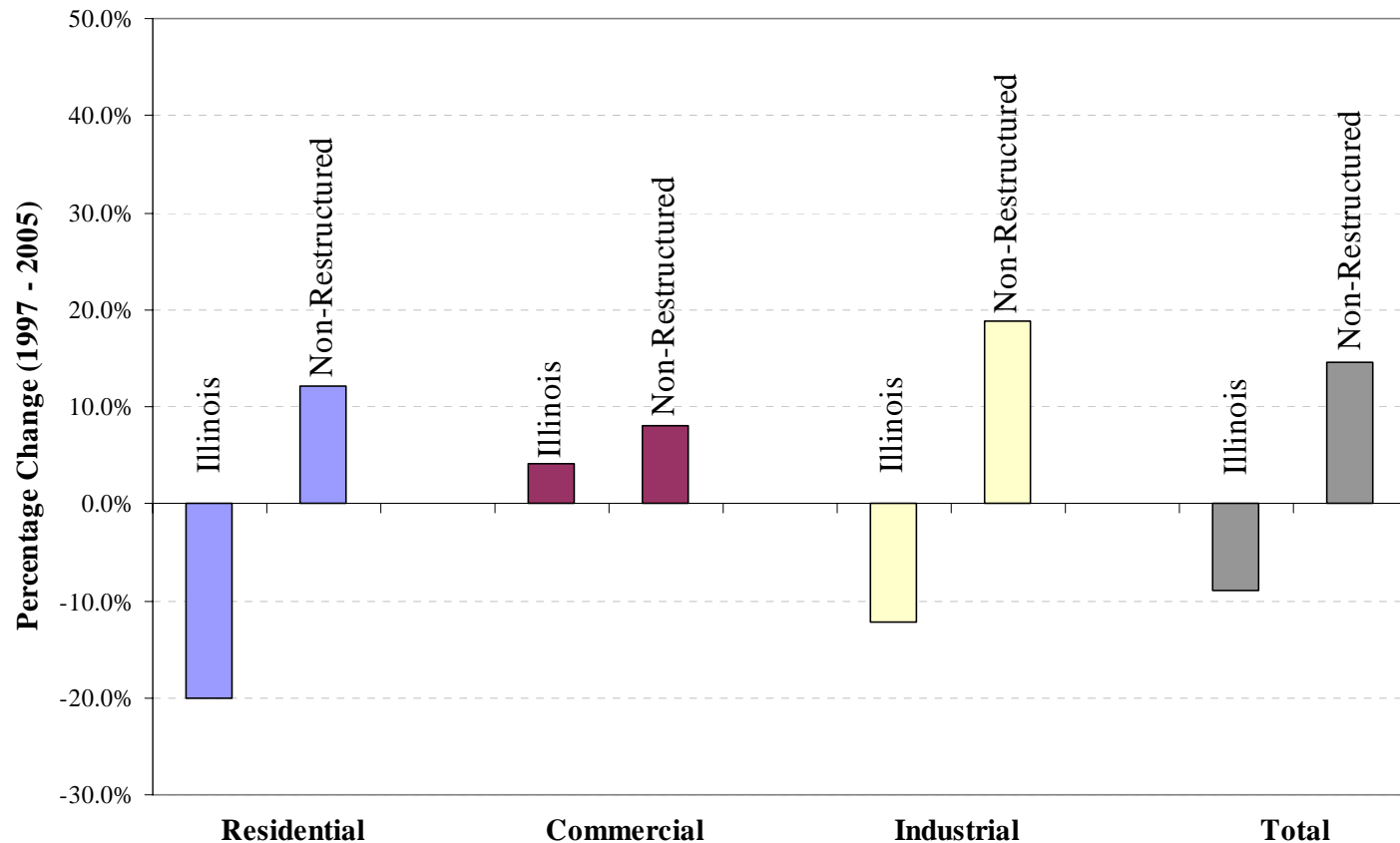
1997-2005 Relative Rate Changes in Restructured and Regulated States by Customer Class



Source: EIA.

- As of 2005, percentage rate increases since 1997 have been less in restructured states
- In most recent years, faster increases in restructured states due to expiring rate freezes and shorter-term procurement
- Change likely in 2006-07 as remaining rate freezes expire and current fuel costs are fully reflected in rates

Percentage Change in Illinois and Non-Restructured Midwest State Retail Rates (1997 - 2005)



Source: EIA. Midwest definition based on Bureau of Census regions. Midwest Non-Restructured states include IA, IN, KS, MN, MO, NE, ND, SD, WI.

Muni Rate Comparisons

Comparative Growth Rate: IL, IN, KY, MO, WI

	2000 cents/kWh	2003 cents/kWh	
<hr/>			
IOU			
residential	7.38	7.51	1.81%
commercial	6.16	6.28	1.89%
industrial	3.98	4.23	6.28%
Public			
residential	6.18	6.55	5.93%
commercial	5.71	6.00	4.96%
industrial	4.46	4.71	5.60%

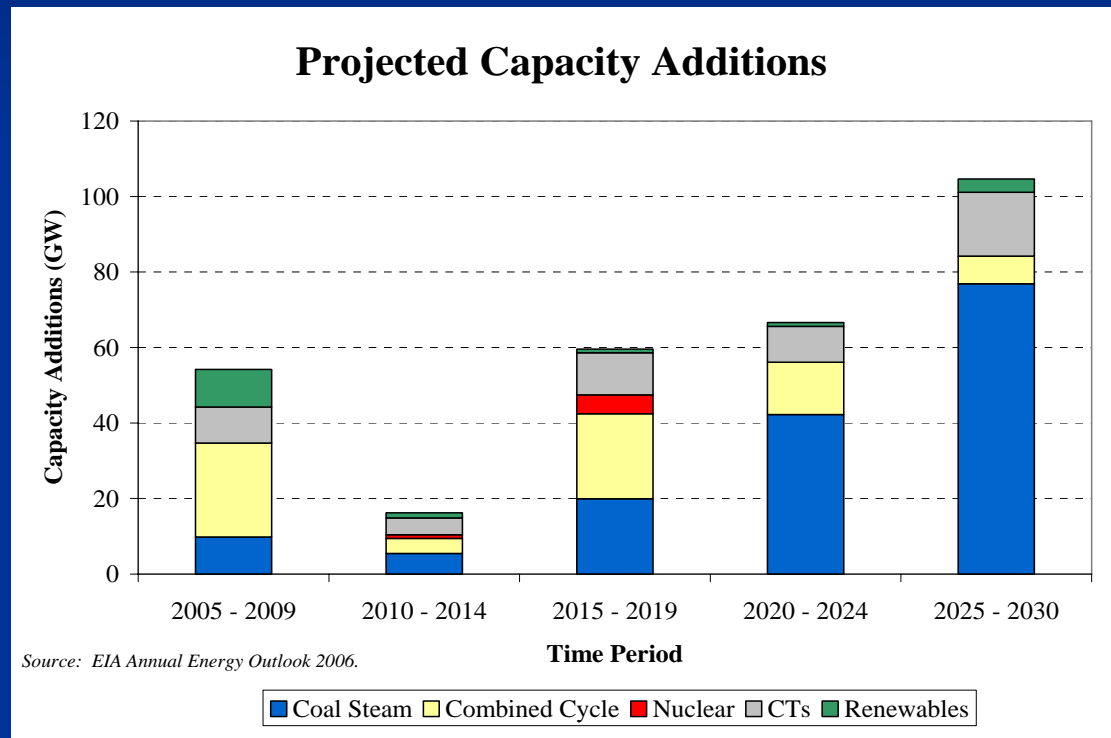
Source: Annual Directory & Statistical Report, American Public Power Association

Challenges Going Forward

- Significant infrastructure investment needs:
 - Generation
 - Transmission
 - Distribution

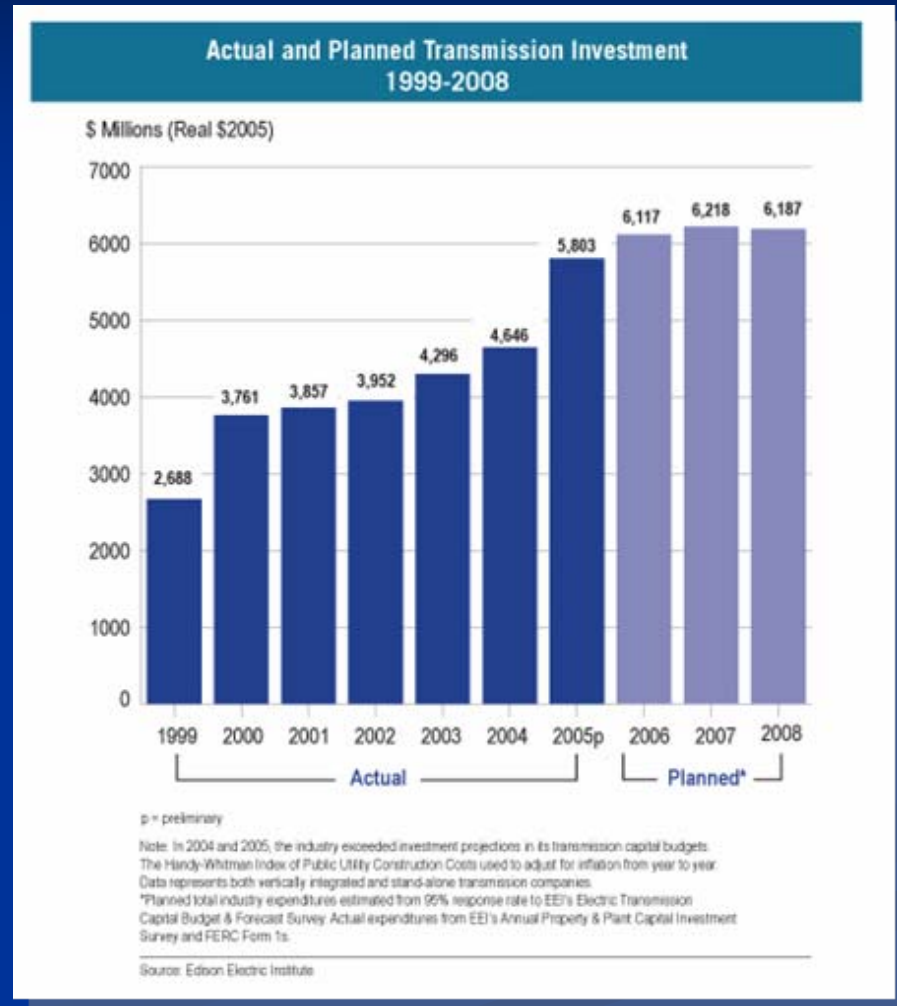
Generation Investment

- Costs of EIA's projected capacity additions: \$300 billion
- 60 percent more capacity needed if it weren't for conservation and DSM efforts



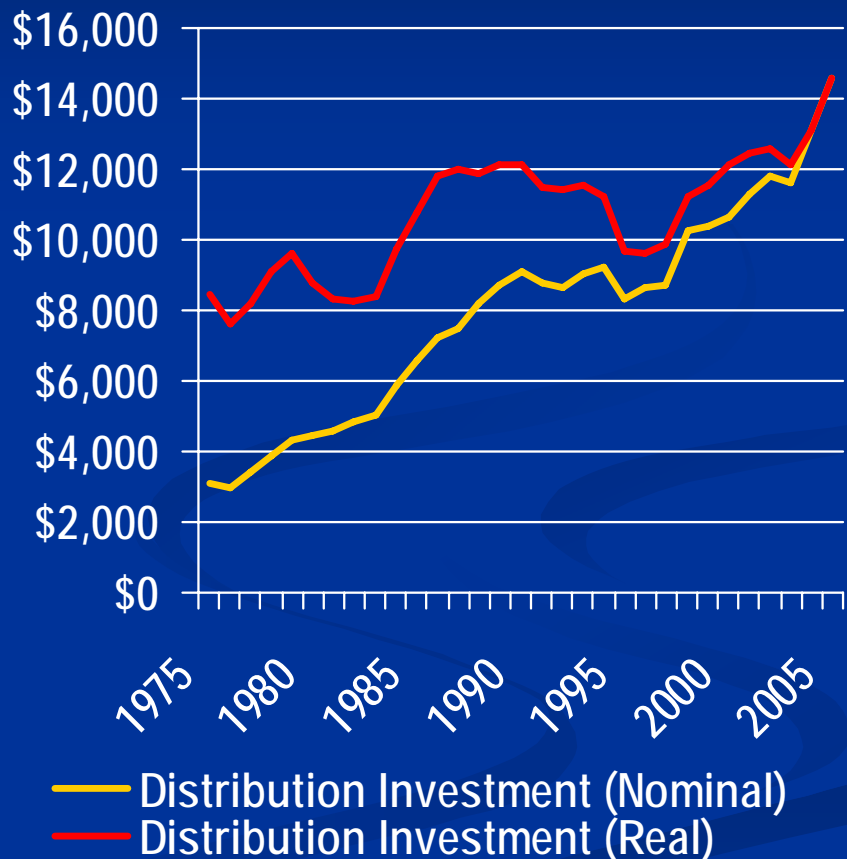
Transmission Investment

- Significant increase in investment since 2000, coinciding with surge in generating capacity
- 116 percent increase since 1999
- \$18.5 billion planned through 2008 on transmission infrastructure—a 25-percent increase over the previous three years



Distribution Investment

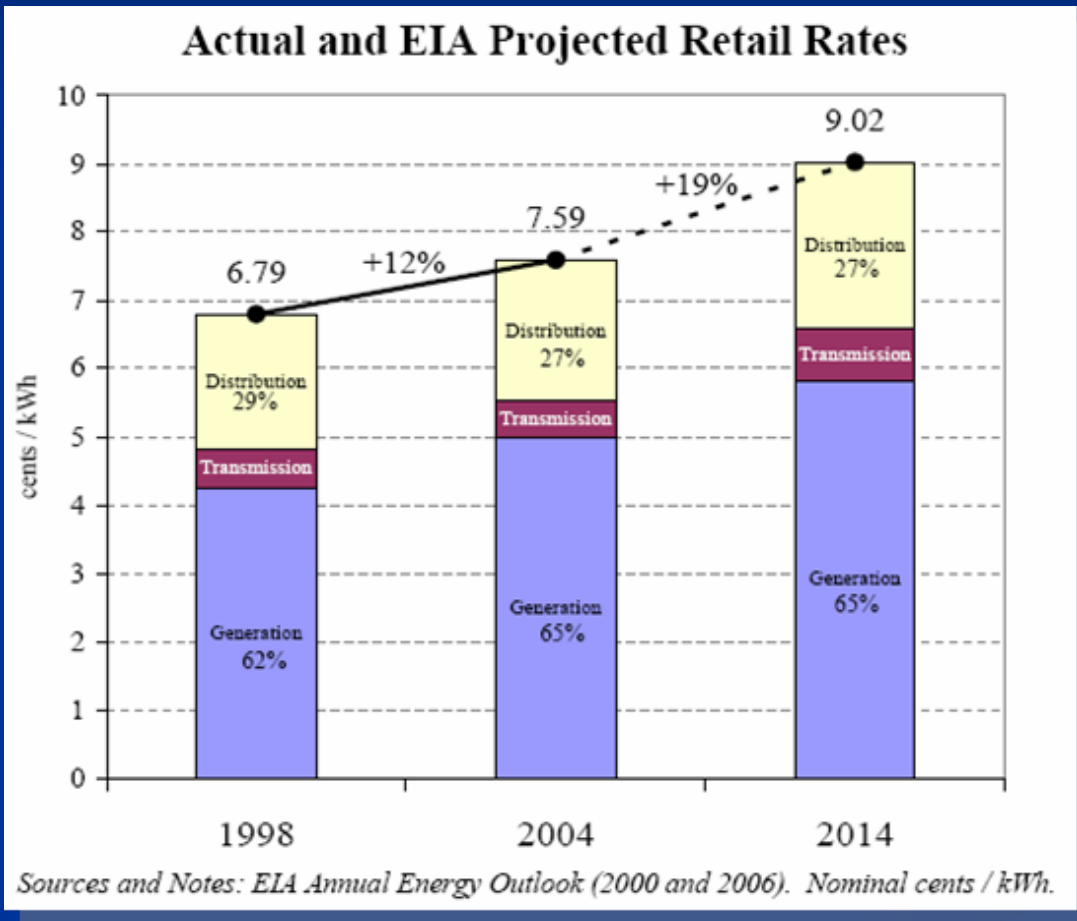
- Average of \$13 billion over next 10 years
- To serve new load:
 - 1,125,290 new residential customers and 183,627 new commercial customers added in 2004
- To replace aging infrastructure
- To modernize system management and control



Cost Drivers

- Retrospectively:
 - Fuel and purchased power costs account for roughly 95 percent of O&M cost increases (totaling \$26 billion) over last five years. In 2005, fuel and purchased power expenses amounted to 71 percent of total O&M expenses
- Prospectively:
 - Capital costs to meet increased electricity demands (45 percent growth by 2030 according to EIA) and to increase environmental performance

EIA Forecast of Retail Rates and Rate Components



- EIA forecasts a 19 percent increase in electricity rates over the next 10 years, compared to a general inflation forecast of 26 percent
- Rate increases are forecast for each service components: G, T and D
- 10-year projection understates near-term increases triggered by fuel prices

The Bottom Line

- If utilities are able to make investments in infrastructure improvements, benefits will include:
 - Increased diversity in fuel for generating electricity
 - Improvements in competitive power markets
 - Cleaner generation
 - Increased customer choice and control over energy use

References

- The Brattle Group, *Why Are Electricity Prices Increasing? Causes and Potential Effects—An Industry-Wide Perspective*, Prepared for the Edison Foundation, June 2006.
- U.S. Department of Energy, Energy Information Administration (EIA)
- U.S. Department of Labor, Bureau of Labor Statistics

M. William (Bill) Brier

M. William (Bill) Brier is vice president, policy and public affairs, at the Edison Electric Institute. Bill's responsibilities include management of public policy and advocacy communication; public opinion research; advertising and exhibits; media relations and outreach; industry publications (including the award-winning magazine, *Electric Perspectives*); publicity and promotion; and electronic information services.

Bill joined EEI in 1983, and is recognized as an industry expert and spokesperson. Bill has been interviewed extensively by national and international media on industry issues, focusing particularly on restructured electricity markets. He has also testified before numerous state legislatures and utility commissions on behalf of EEI's member companies.

Prior to joining the Institute, Bill served as Vice President of Public Affairs at CF Industries, a chemical company. He also held a similar position with Energy Cooperative, an independent petroleum refiner. Bill has worked for RJR Industries and the National Council of Farm Cooperatives.

Bill served as an executive assistant to U.S. Congressman Larry Winn, Jr. (R-Kansas), and was a member of the Kansas House of Representatives from 1968-1970. He is a graduate of the University of Kansas.

